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FROM: J. Tyler McCauley *tm*
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION - PROPOSITION A
MAINTENANCE AND CONSTRUCTION BILLING**

At the request of the Chief Administrative Office (CAO), we have conducted a review of the County Department of Parks and Recreation's (DPR or Department) General Fund billings to the County Regional Park and Open Space District (District). The purpose of our review was to determine whether the billings were supported by adequate documentation and whether all appropriate costs were being billed.

Summary of Findings

DPR does not have supporting documentation for approximately \$4.8 million in maintenance costs that have been billed. As of April 30, 2002, DPR also has not produced documentation to support the billed costs of approximately \$117 million in construction costs.

We have recommended that DPR obtain documentation to support these prior billings and maintain adequate documentation in the future. Because of the nature of this problem, it appears that the County may not have met its fiduciary responsibility to the District, and we have recommended that DPR discuss this matter with County Counsel to determine what other corrective actions are necessary.

We also noted that DPR has not developed maintenance budgets for numerous projects and, as a result, is not recovering maintenance costs from the District. The County General Fund is paying for these costs that could be financed with District funds.

Each year, the District arranges for an independent audit of completed projects funded by the District. However, DPR projects have not been audited because only completed projects are audited and, DPR has not provided the District with documentation needed to complete the project files. We have recommended that the District ensure billings for DPR's projects are included in the annual audit.

Below are the details of our findings and recommendations.

Background

The Safe Neighborhood Parks Act (Proposition A) of 1992 resulted in the establishment of the County Regional Parks and Open Space District. The main purpose of the District is to issue bonds with the proceeds allocated to cities, the County, and other agencies for the acquisition and improvement of parks. A special assessment on properties within the District is used to fund debt service and certain maintenance costs. The governing board of the District is the County Board of Supervisors and the District's operations are managed by DPR. DPR is also responsible for utilizing the majority of the County's portion of the Proposition A funding and for billing the District for the related costs. Since calendar year 1993, the Department has started 171 Proposition A capital projects.

To obtain Proposition A funding for its projects, DPR must submit a proposed acquisition/improvement plan and project budget to the District for approval. Prior to FY 2000, DPR was able to obtain District funds for Board approved capital projects based on the project budget, without providing supporting documentation to the District. Beginning in 2000, DPR must submit bills and other supporting documentation to the District to obtain District funds.

The District also reimburses DPR for its maintenance costs associated with completed capital projects. DPR bills the District for its facility maintenance costs based on the project maintenance budgets agreed to by DPR and the District.

As of April 30, 2002, DPR has received approximately \$117 million in District funds for the 171 capital projects, and approximately \$4.8 million for facility maintenance costs.

Maintenance Cost Billings

If DPR overbills the District for maintenance costs, it will result in a misuse of the Proposition A funding. If DPR underbills the District for these costs, it will result in the County General Fund paying for these costs and reduce available fund balance for Board determined uses by leaving available funds in the restricted District accounts. To ensure the accuracy of billings, they should be supported by adequate documentation such as invoices and time records.

DPR has 22 approved Proposition A projects with approved maintenance budgets totaling \$1.5 million. Our review disclosed that DPR's cost accounting system does not identify the actual maintenance costs associated with individual Prop A projects. DPR's cost accounting system accumulates costs by facility and does not separately account for Proposition A and non-Proposition A maintenance costs. DPR indicated that it normally bills the District based on the Department's approved maintenance budget.

In both FY 1998-99 and FY 1999-2000, DPR billed the District the total of the approved project budgets, \$1.5 million, for the maintenance costs associated with the Department's 22 approved projects. However, in FY 2000-01, DPR billed the District \$851,756 for 11 projects. DPR indicated that they only billed for 11 projects in FY 2000-01 because they did not have documentation to support the costs for the other 11 projects. However, as noted earlier, all of DPR's billings are based on the project maintenance budgets, and the Department had no additional back-up for the cost for the 11 projects that were billed in FY 2000-01. Consequently, it is unclear why DPR only billed the District for 11 projects in FY 2000-01.

To ensure the Department accurately bills the District for its actual maintenance costs associated with each Proposition A project, DPR should enhance their cost accounting system to separately account for each project's costs. DPR management should then bill the District at least annually to obtain reimbursement for all eligible expenses. The Department should also maintain supporting documentation for all expenses billed to the District. In cases where the Proposition A project is too small to identify its actual costs separately (e.g., an additional area of turf or additional restroom stall), DPR should bill the District for maintenance work using industry standards or other validated methods (e.g., time studies, comparisons among facilities, etc.) to estimate actual costs.

Recommendations

DPR management:

- 1. Enhance the Department's cost accounting system to separately account for the maintenance cost associated with each Proposition A project.**
- 2. Bill all Proposition A project maintenance costs to the District for all costs at least annually to obtain reimbursement for all eligible expenses. In cases where the Proposition A project is too small to separately identify, bill the District for maintenance work using industry standards or other validated methods to estimate actual costs.**

As noted earlier, DPR only has 22 approved project maintenance budgets. However, based on the amount paid by the District to DPR for project acquisition/construction, it appears that DPR may have completed approximately 100 projects.

DPR management should review the Proposition A projects to identify completed projects for which maintenance costs should be billed to the District, and develop maintenance budgets for approval by the District and bill for approved maintenance costs.

Recommendations

DPR management:

- 3. Review the Proposition A projects to identify completed projects for which maintenance costs should be billed to the District.**
- 4. Develop maintenance budgets for approval by the District for all completed projects.**
- 5. Bill for all approved maintenance costs.**

Capital Project Accounting

The District's Procedural Guide requires agencies receiving Proposition A capital project funds to maintain an accounting system that accurately reflects fiscal transactions, and that provides audit trails, including original documents such as receipts, progress payments, invoices, signed and approved timecards, cancelled warrants, etc. The system also must provide accounting data so that the cost of each project can be readily determined. If an agency cannot adequately document its Proposition A project expenditures, the District may, at its discretion, require the agency to repay funds advanced for all undocumented costs.

Our review disclosed that DPR has not yet provided the District with documentation to support costs associated with its Proposition A capital projects. As noted previously, the District has paid DPR approximately \$117 million for 171 capital projects. DPR and District staff have indicated that the documentation exists. However, they are having difficulty locating documentation for both the private construction/landscaping companies and County costs.

To help ensure compliance with Proposition A program guidelines, and to reduce the risk of having to refund undocumented costs, DPR management should provide the District with documentation to support costs associated with the Department's completed Proposition A projects.

Recommendations

DPR management:

- 6. Provide the District with documentation to support costs associated with the completed Proposition A projects.**

- 7. Ensure that, in the future, documentation is maintained to support capital project billings.**

Fiduciary Responsibility

As the governing board and operations manager of the District, the County has a fiduciary responsibility to ensure that District funds are only used for their lawful purpose. The lack of documentation for DPR's expenditures raises the concern that these costs were inappropriate and that the County has not fulfilled its responsibility to safeguard District assets. In addition, we noted that the District has arranged for audits by an outside CPA firm of completed Proposition A projects funded by the District for various agencies (e.g., incorporated cities, private agencies, etc.). However, because DPR has not provided documentation needed to complete the project files, DPR's projects have not been audited.

DPR needs to consult with County Counsel to determine whether the County has fulfilled its legal responsibilities to the District and, if not, what actions are necessary to correct the problem. DPR should also work with the District to ensure that DPR projects are audited for compliance with District requirements.

Recommendations

DPR management:

- 8. Consult with County Counsel to determine whether the County has fulfilled its legal responsibilities to the District and, if not, what actions are necessary to correct the problem.**
- 9. Work with the District to ensure that DPR projects are audited for compliance with District requirements.**

Acknowledgment

We thank the Department of Parks and Recreation management and staff for their cooperation during our review. If you have any questions, please call me or have your staff contact DeWitt Roberts at (213) 974-0301.

JTM:DR:JS

c: David E. Janssen, Chief Administrative Officer
Tim Gallagher, Director, Department of Parks and Recreation
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